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ABSTRACT

After decades of media attention, study, and lawsuits, the solution to inequities in school funding remains elusive. This paper examines several strategies that states have used to try to close the funding disparities in per-pupil spending. It explains the two definitions of equity in the school-finance arena and identifies some important trends in school-finance litigation. Also described are some of the strategies used by states to address problems arising from differences in school spending, such as increasing state spending in low-wealth districts, placing legislative spending caps on wealthy districts, and recapturing or redistributing revenue. The role of state courts in directing remedies to unequal state funding is outlined in the next part. Policymakers also face challenges resulting from a projected growth in elementary-secondary enrollments and the increased need for state support of school-district capital outlay. State policymakers are advised to be sensitive both to taxpayer equity and to concerns for educational equity; maintain the stability of the funding system; include a measure of school-district fiscal capacity in the state-funding approach; examine both the positive and negative circumstances associated with the use of earmarked lottery revenue; be attuned to the principle of program neutrality; consider the funding systems in total; and distribute state resources in such a way that promotes the most efficient use of those resources at the local level. In addition, the federal role in education finance may need to be redefined. One table and one figure are included. Appendices contain states' nontax revenues (lotteries) for education; educational goals for Kentucky; Alabama's essential principles; programs under the Elementary Secondary Education Program; ideas for a broader federal role in education finance; a glossary; and professional organizations' strategies to address equity. (Contains 30 endnotes and 26 references.) (LMI)

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Working Papers

The Search for Equity in School Funding

Equity in school funding garners significant attention from policymakers at every level of government as well as educators, parents and the general public. Even after decades of media attention, study and lawsuits, the solution to inequities remains elusive. For policymakers a central problem is how to balance state goals and standards while at the same time recognizing that local discretion must be preserved. Additionally, too many of today's schoolchildren are not achieving at expected levels, and there is a universal desire to see that tax money is spent effectively as well as efficiently.

This paper examines several strategies that states have used to try to close the funding disparities that characterize inequities in per-pupil spending. The paper is divided into six sections: Definitions, Background, State Strategies, Court-Directed Remedies, Emerging Issues and Policy Recommendations. Although there is no "one size fits all" method of school funding, the information in this paper is designed to help states as they balance local autonomy, state roles and constitutional responsibilities and court-directed remedies.

Trying to achieve equity involves tradeoffs. Although the concept of equity refers to equal opportunity, communities won't necessarily spend equal amounts of educational resources to support education. Local control means that communities decide what curriculum is taught and how much money is spent in educating their students. Thus, it is extremely difficult for a state to impose equitable spending patterns while embracing the concept of local autonomy. Another important consideration arises from the difficulty in using spending as an indicator of educational opportunity, given that per-pupil expenditures vary considerably within and among states.¹ Third, because equity can refer to different groups of individuals, namely students and taxpayers, legislators struggle to find an equitable balance between those who provide the taxes for schools and those who benefit and depend on them. Discussions about equity are best described as dynamic tensions between competing interests and concepts.

States have used several strategies to try to close the funding disparities that characterize inequities in per-pupil spending.

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Equity in the School Finance Arena: Two Definitions

There is no universally accepted definition of equity in school finance. The term equity means different things to different people. Noted school finance expert William Clune defines equity in school finance as follows: "Equity means equal and implies that one district or school receives the same amount as another, usually in the same district or state. A prior generation of school finance litigation was based on the idea that all children in a state should have equal access to educational resources, for example, equal spending or guaranteed tax base. Equity is and was focused on inputs."²

"Equity means equal and implies that one district or school receives the same amount as another. . ."

Clune defines equity in traditional horizontal terms (refer to Background section). Furthermore, Clune notes that there has been a shift in concerns from equity to adequacy in school finance, and several of the more recent school finance litigation cases reflect that fact. Although Clune draws a distinction between adequacy and equity, he suggests that there are links between the two concepts. The shift from equity to adequacy is being driven by an emerging consensus that high minimum outcomes should be the orienting goal of both policy and finance. Examples of this point are evident in various efforts under way in Wyoming, New Jersey, Texas, Minnesota, Illinois, Oregon and New York. These states are trying to determine how much an adequate education costs. When they do they plan to tie funding formulas to those determined costs. It is this emerging emphasis on outcomes that has produced what Clune refers to as a modified equity standard, which links the two concepts.

Another definition is offered by David Thompson, R. Craig Wood and David Honeyman. "Equity is the concept of a fair and just method of distributing resources among schoolchildren. Yet not all facets of an equitable system of financing education have been discovered, nor has any state achieved equity for students or taxpayers because our understanding of equity continues to expand."³

One method of determining how equitable the finance system of a state is comes from examining three different analytical measures:

1. The variation in revenue and spending across school districts that is not attributable to a legitimate cost factor,
2. The relationship between revenue and wealth,
3. The relationship between revenue and spending and the tax effort.

"A system may be considered to be equitable that produces a low variation in revenue and spending; or an equitable system may be one that produces a moderate variation in revenue and spending provided that the relationship to wealth is low and the relationship to tax effort is high."⁴

For example, if per-pupil spending levels of 10 school districts were analyzed it would be possible to judge the 10 to be equitable if there were a negligible difference in their per-pupil expenditures. However, if those same 10 districts had dramatically different levels of per-pupil expenditures, and there was no rational reason for those differences, the obvious conclusion would be that the 10 were spending inequitably.

Background

Examination of school finance litigation since 1989 shows there is no easy way to predict whether a state's school finance system will be ruled constitutional or unconstitutional by that state's highest court. Judging from court rulings in 1989 and the early part of 1990, plaintiffs challenging the constitutionality of school finance systems were consistently winning the suits. This trend did not hold for very long, and now about half of the rulings are in favor of states defending their financing system.

Court cases challenging state school finance systems are pending in 14 states and there does not appear to have been a drop-off in the number of these suits since the 1989 "Big 3" decisions in Kentucky, Montana and Texas (see table 1). Since 1989, the legality of state school finance systems has been tested in 21 states.⁵

Some important trends in the school finance arena appear to be emerging. For example, the data clearly indicate that wide disparities remain among states in the relative state/local/federal mix of public school revenues and in the levels of per-pupil expenditures both within and across states (see table 2). School finance experts are expecting these trends to continue. Surprisingly, the disparities in per-pupil expenditures also exist in states that have had court cases, although the gap between low and high spenders has been reduced. For example, in New Jersey per-pupil expenditures ranged from a low of \$5,900 to a high of \$11,500 for the 1995-1996 school year.⁶ In Illinois spending ranged from about \$3,000 to \$15,000 according to Education Week.⁷ Drawing from the court record in the Edgewood litigation in Texas (Edgewood I, 1985-Edgewood V, 1995), a 700 to 1 ratio of assessed valuation per pupil between high-and-low spending districts existed before the lawsuit and will stand at 28 to 1 when Senate Bill 1 is fully implemented in 1999.⁸ Turning to interstate spending differences, *Public School Finance Programs of the United States and Canada, 1993-94* reports revenue per pupil varied from \$9,814 in New Jersey to \$3,810 in Utah. The state share varied from 90.9 percent in Hawaii to 8.3 percent in New Hampshire, and the local share varied from 88.9 percent in New Hampshire to 2.1 percent in Hawaii. In seven states, the state government provided more than 70 percent of nonfederal revenue, and in eight states the share was less than 40 percent.⁹ As these figures suggest, financing of elementary and secondary education requires a lot of money. In school year 1993-1994, expenditures in all U.S. public elementary and secondary schools totaled an estimated \$285 billion.¹⁰ Education is the largest single-budget category of spending in all the states.

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Table 1
School Finance Litigation Activity

States in which the School Finance System Has Been Ruled Unconstitutional
by the State's Highest Court:

Arizona (1994)	New Jersey (1973, 1990)
Arkansas (1983)	Tennessee (1993)
California (1971—original ruling)	Texas (1989)
Connecticut (1977)	Washington (1978)
Kentucky (1989)	West Virginia (1979)
Massachusetts (1993)	Wyoming (1980, 1995)
Montana (1989)	

(Note: Alabama's entire education system was ruled unconstitutional by a lower court in 1993. The capital outlay provisions of Arizona's finance system was found unconstitutional.)

States in which the School Finance System Has Been Challenged and Upheld
by the State's Highest Court:

Colorado (1982)	New York (1982)
Georgia (1981)	North Dakota (1994)*
Idaho (1975)	Ohio (1979)
Illinois (1976, 1990, 1996)	Oklahoma (1987)
Kansas (1994)	Oregon (1976, 1991)
Maryland (1983)	Pennsylvania (1979)
Michigan (1984)	Virginia (1994)
Minnesota (1993)	Wisconsin (1989)

*Note: Majority (three) ruled in favor of the plaintiffs but North Dakota requires four justices to declare statutory law unconstitutional. Nebraska Supreme Court upheld the dismissal of an appeal because the case didn't state a cause of action, but there was no ruling on the constitutionality of the school finance system.

Source: D. Versteegen, University of Virginia (Aug. 1, 1994). Compiled from interviews, document analysis and Education Commission of the States, National Conference of State Legislatures and Center for the Study of Education Finance information.

Table 2
Level and Composition of School Revenue, 1993-1994

	School Revenue Per Pupil	Including Federal Aid			Excluding Federal Aid	
		Federal	State	Local	State	Local
New England	\$7,145	5.1%	36.0%	58.9%	38.0%	62.0%
Connecticut	8,652	4.6%	39.5%	55.9%	41.4%	58.6%
Maine	5,957	7.0%	48.5%	44.4%	52.2%	47.8%
Massachusetts	6,754	5.5%	36.0%	58.5%	38.1%	61.9%
New Hampshire	6,380	2.8%	8.3%	88.9%	8.6%	91.4%
Rhode Island	7,016	4.5%	40.7%	54.8%	42.6%	57.4%
Vermont	7,204	5.2%	32.4%	62.5%	34.1%	65.9%
Mid-Atlantic	8,262	5.5%	40.5%	54.0%	42.9%	57.1%
Delaware	6,696	9.1%	65.1%	25.8%	71.6%	28.4%
Maryland	6,526	5.6%	39.0%	55.4%	41.3%	58.7%
New Jersey	9,814	4.2%	41.5%	54.3%	43.3%	56.7%
New York	8,629	5.6%	39.2%	55.2%	41.5%	58.5%
Pennsylvania	7,526	6.2%	41.4%	52.5%	44.1%	55.9%
Great Lakes	6,135	6.2%	38.5%	55.3%	41.0%	59.0%
Illinois	5,793	8.2%	32.9%	58.8%	35.9%	64.1%
Indiana	5,950	5.2%	52.1%	42.6%	55.0%	45.0%
Michigan	6,840	5.7%	32.1%	62.2%	34.1%	65.9%
Ohio	5,699	6.2%	43.4%	50.4%	46.2%	53.8%
Wisconsin	6,706	4.4%	38.7%	56.9%	40.4%	59.6%
Plains	5,481	6.0%	43.4%	50.5%	46.2%	53.8%
Iowa	5,497	5.7%	48.4%	45.9%	51.3%	48.7%
Kansas	5,496	5.5%	49.7%	44.9%	52.5%	47.5%
Minnesota	6,113	5.1%	46.5%	48.5%	48.9%	51.1%
Missouri	5,232	6.6%	37.5%	55.9%	40.2%	59.8%
Nebraska	4,984	4.8%	39.1%	56.1%	41.0%	59.0%
North Dakota	4,761	11.5%	43.6%	44.9%	49.2%	50.8%
South Dakota	4,830	10.8%	25.3%	63.9%	28.4%	71.6%
Southeast	4,963	9.2%	52.8%	38.0%	58.2%	41.8%
Alabama	3,913	13.1%	65.4%	21.6%	75.2%	24.8%
Arkansas	4,411	9.4%	63.1%	27.5%	69.7%	30.3%
Florida	5,838	7.7%	49.8%	42.4%	54.0%	46.0%
Georgia	5,125	8.4%	49.4%	42.2%	54.0%	46.0%
Kentucky	4,932	10.2%	67.2%	22.6%	74.9%	25.1%
Louisiana	4,608	12.3%	53.6%	34.0%	61.2%	38.8%
Mississippi	3,806	16.6%	53.8%	29.6%	64.5%	35.5%
North Carolina	4,950	8.9%	63.8%	27.3%	70.0%	30.0%
South Carolina	4,924	9.6%	46.9%	43.5%	51.9%	48.1%
Tennessee	4,135	9.8%	48.9%	41.3%	54.3%	45.7%
Virginia	5,271	6.6%	34.2%	59.2%	36.6%	63.4%
West Virginia	6,007	8.2%	64.6%	27.2%	70.4%	29.6%
Southwest	5,204	8.6%	46.4%	45.0%	50.8%	49.2%
Arizona	4,957	8.9%	42.3%	48.9%	46.4%	53.6%
New Mexico	6,228	10.3%	61.8%	27.9%	68.9%	31.1%
Oklahoma	4,397	7.4%	63.3%	29.4%	68.3%	31.7%
Texas	5,303	8.5%	43.4%	48.1%	47.4%	52.6%
Rocky Mountain	5,107	6.8%	51.6%	41.6%	55.3%	44.7%
Colorado	4,966	5.8%	46.0%	48.2%	48.8%	51.2%
Idaho	4,027	8.1%	60.9%	30.9%	66.3%	33.7%
Montana	5,376	9.2%	53.8%	37.0%	59.3%	40.7%
Utah	3,810	7.1%	54.9%	38.0%	59.1%	40.9%
Wyoming	6,679	5.8%	52.2%	42.1%	55.3%	44.7%
Far West	5,524	8.3%	56.9%	34.8%	62.0%	38.0%
California	5,327	8.9%	54.9%	36.2%	60.3%	39.7%
Nevada	5,245	5.0%	36.0%	59.0%	37.9%	62.1%
Oregon	5,549	7.3%	41.0%	51.7%	44.3%	55.7%
Washington	6,140	5.9%	71.0%	23.0%	75.5%	24.5%
Alaska	8,189	12.6%	63.6%	23.8%	72.8%	27.2%
Hawaii	6,537	7.1%	90.9%	2.1%	97.8%	2.2%
United States	5,907	7.2%	46.0%	46.8%	49.6%	50.4%

Source: National Education Association, 1994-95 Estimates of School Statistics (Washington, D.C., 1995), p. 38.

School finance equity can be described as taxpayer, horizontal or vertical equity.

Assessing the equity of a school finance system involves determining the type of equity to be achieved. School finance equity can be described in terms of either taxpayer, horizontal or vertical equity:

- *Taxpayer equity* refers to an acknowledged sensitivity to the level or amount of taxes that are paid by taxpayers in support of public education. Attention is focused on the amount of property or other taxes that taxpayers pay compared with those paid by taxpayers in other communities for public education.
- *Vertical equity* is defined as the unequal treatment of unequals. It implies that there can be rational reasons for providing differing levels of per-pupil funding based on the needs of individual students. The most common illustration of this concept is different treatments required by special needs students, students in poverty and those who are eligible for early intervention programs.
- *Horizontal equity* is defined as equal treatment of equals. The principle states that every student is of equal value and should receive the same amount of programmatic funding and educational services. (In reference to taxpayers, horizontal equity requires identically situated taxpayers to pay identical taxes.)¹¹

The task of the policymaker is made difficult because the approaches to equity have competing interests that are very difficult to resolve. To achieve equity, states commonly use what is known as the "foundation formula." A foundation formula is designed to take into account a measure of the local wealth of school districts, ensuring that the taxpayers relative tax burden is considered when the state finance program is created. Many of these formulas incorporate "weightings" to account for the individual needs of students, using the concept of vertical equity. In this way taxpayer equity can be addressed, at least conceptually.

State Strategies

States have used a number of different strategies to address problems that arise from differences in school district spending, and often changes in strategy are prompted by adverse court rulings regarding a state's school funding mechanism. Characteristically, these responses have included appropriation of additional state aid to low-spending districts, capping the amount of money that wealthy districts can spend and capturing "excess" local revenues from wealthy districts for statewide school funding purposes.

Increasing State Spending in Low Wealth Districts

A majority of states have increased the amount of revenues appropriated for low-spending districts. In fact most states have increased spending in virtually all school districts over the last decade.¹² In recent years some states have increased the state share for K-12 education in part, to decrease reliance on the politically unpopular property tax that funds most of the local share of education costs. Others have enacted state lotteries that earmark percentages of revenues for education, (see appendix A).

In 1994, the New Jersey legislature was directed by its supreme court to appropriate additional revenues to 30 "special needs" districts. "The remedy was highly compensatory, setting spending in low-outcome districts equal to wealthy suburban districts, plus an undetermined amount of compensatory aid."¹³ This was the third time since 1973 that the New Jersey Supreme Court had deemed the funding system unconstitutional. The court gave the state until the 1997 - 1998 school year to achieve "substantial equivalence, approximating 100 percent," in per-pupil spending by wealthy and poor districts.¹⁴ The 1994 decision came after the state had substantially increased state aid to education. The Center for Educational Policy Analysis (CEPA) determined that state education aid increased nearly \$900 million between 1990 and 1991. Aid to the target special needs districts increased \$513 million in the same two-year period.

A recently released GAO report, *School Finance, Three States' Experiences with Equity in School Funding*, notes that Tennessee raised new revenue to increase funding in poorer districts by increasing the sales tax 0.5 percent. An earlier plan to implement an income tax for this purpose had been soundly defeated. In addition, the Supreme Court ordered the state to equalize teacher salaries. Forty school systems received increases to address an imbalance between urban and rural teacher salaries. These policy changes were enacted in 1993. This action followed disposition of a school finance lawsuit filed by 66 small school districts, in which a chancery court, the court of appeals and the state supreme court all found that, "neither state nor local school funding is equalized to the point that it satisfies the state constitution's mandate of providing a system of uniform schools."¹⁵

Tennessee enacted policy changes in 1993 to increase funding in poorer school districts and equalize teacher salaries.

Placing Legislative Spending Caps on Wealthy Districts

Generally, the reason for placing caps on additional revenue is to keep high-wealth districts from disproportionately increasing their revenue above that of low-wealth districts. This approach has been criticized by those who fear that equity will be achieved by making better, or higher-spending, schools worse and is referred to as "leveling down." Some policymakers argue that there should be districts that can serve as models for others and that, without them, well-to-do families will be more likely to leave the school system and send their children to private schools. These model districts are commonly referred to as "lighthouse districts," meaning that their often superior programs, facilities and achievement levels will entice other districts to strive to achieve similar outcomes.

As part of a legislative plan to reduce the reliance on property tax and close the gap between low-and high-spending districts, the Wisconsin General Assembly, in 1995, adopted legislation imposing a limit on the amount of revenue per pupil that each school district could raise through a combination of state general school aid and property taxes. The maximum allowable increase per pupil is a specific dollar amount or the rate of inflation, whichever results in a higher amount for the district. (See the Recapture section which refers to Kansas' local option budget provision that places a cap on the amount of revenues available to high-wealth districts.)

The recapture feature in state school finance formulas allows the state to redistribute revenues from districts with more money than can be legally spent to other districts.

Recapture/Redistribution

Recapture is a feature in state school finance formulas whereby local districts that raise more revenue than they can legally spend must make the excess amount available to the state for redistribution to other school districts.

In a 1993 decision in Wyoming, District Judge Nicholas G. Kalokathis ruled that although the overall system was constitutional, three programs within the school funding formula needed to be replaced. The three programs were established to direct state aid in excess of the base foundation amount to low-wealth districts. One of the three programs was a recapture program that allowed some of these excess local property taxes to remain in wealthy districts. The other two programs were the method the state used to calculating aid for school districts in cities and a provision that allowed for locally levied property taxes. In December 1995, the state supreme court not only agreed with the district court's decision but went further in finding the funding system unconstitutional.

Many states include a combination of these strategies. In 1992, the state of Kansas implemented a pupil-weighted school finance plan that contained a uniform property tax levy designed to reduce expenditure disparities and the influence that school district property tax base variations have on school spending decisions. Excess revenue produced in some school districts by the uniform property tax rate are remitted to the state and are used in helping to fund the state's obligation under the formula. In addition, the legislation allows a local option budget of any amount up to 25 percent of the base amount, subject to approval by the local school board and subject to a protest petition election procedure.

Ultimately the final plan to restructure the Texas financing system resulted in a combination of caps on wealthy districts and a recapture element.¹⁷ The legislature gave districts five choices for reducing their property wealth to a level of \$280,000 per weighted pupil:

1. By agreement, a high-wealth district could voluntarily consolidate with a lower-wealth district.
2. By agreement, a school district could detach nonresidential property in order to lower its property value. The detached property would then be permanently annexed to another school district.
3. With the approval of the voters, a high-wealth district could purchase attendance credits from the state as a surrogate method of reducing tax base.
4. High-wealth districts could elect to contract for the education of nonresident students.
5. A high-wealth district could ask the voters of a region to agree to tax base consolidation, similar to county education districts.¹⁸

A second tier of the Texas school-funding system is a guaranteed yield (GTY) to provide each school district with the opportunity to supplement the basic program at a level of its own choice with access to additional funds for facilities.¹⁹ GTY programs are defined as matching grants. The state matches a percentage of funds raised for education by the school district based on the fiscal capacity of the district. The higher the guaranteed revenue per pupil, the greater the equalization effect and cost to the state.²⁰ Two states (Indiana and Wisconsin) use this formula approach as the primary mechanism for distributing basic support aid.

Pursuit of Court Directed Remedies

Whereas many states have enacted substantive changes to their education financing systems because of legislative or executive initiatives, others have done so as a result of adverse court rulings. The role that courts play differs across the country. Some have been unwilling to offer specific suggestions to legislatures, not wanting to be seen as intruding on legislative branch discretion since most state constitutions clearly designate authority and oversight of education to the legislature. Other state courts have been more activist and have either given specific strategies in the court opinion or have set deadlines by which the legislative branch is to act. Three examples of court-directed remedies follow.

Texas

Texas Supreme Court, although not telling the legislature specifically what to do, directed the legislature to restructure the system to equalize access to funds among all school districts. The court suggested the following limited options:

1. *Total state funding.* An example of this approach is the state of Hawaii, which is the only state that provides almost 100 percent of the funds for K-12 education. No property tax funds are levied to support education, because state support for the operation of the public schools comes from the state general fund.
2. *Statewide property tax.* Several states use statewide property taxes, which impose a uniform taxation rate across the state. States that use this system include Arizona, Wyoming, Kansas and Washington.
3. *District consolidation.* This approach consolidates or reconfigures school districts in order to balance differences in property wealth.
4. *Limited tax-base consolidation combined with additional state aid.* Very complicated and difficult to implement, this approach allows commercial property from one district to be detached and placed in another district for taxing purposes. If necessary, the state would then provide additional aid to bring the low-wealth district to the statutory threshold for assessed valuation per pupil.

Court roles in state education financing differ across the country.

Growth in school enrollments has significant implications for classroom space, school infrastructure and personnel needs.

Kentucky

The Kentucky Supreme Court identified nine "essential" characteristics of an efficient system of common schools as guidance for the Kentucky General Assembly in its attempt to design a constitutional system (see appendix B). The nine characteristics stated that equal educational opportunities must be provided to all children regardless of their place of residence or economic circumstance; that all children have a constitutional right to an adequate education; and that the General Assembly is responsible for providing school funding sufficient to provide each child with an adequate education.²¹ Since the enactment of the Kentucky Education Reform Act (KERA) in 1990, the state has allocated roughly \$4 billion in new revenues.

Alabama

Borrowing from the Kentucky decision, Alabama Circuit Court Judge Eugene W. Reese's 125-page, 1993 opinion identified nine "essential principles and features of the liberal system of public schools required by the Alabama Constitution" (see appendix B).²² To date, the remedy order has not yet been implemented, and Governor Fob James filed a motion for appeal of the order to the state supreme court.

Emerging Issues to Consider

Funding to build school facilities, also referred to as school district capital outlay, is almost totally dependent on local property taxes and voter approved levies. Recent litigation in Arizona, Texas and Ohio indicates that states may have to determine how they can participate more in the funding for facilities. The courts have broadened their view of equity to include the condition of school buildings in the determination of equitable finance systems. Additional state support for school facilities could require significant state expenditure, given the backlog of deferred maintenance, and the demands associated with current educational reforms, including educational technology.

Policymakers will face a difficult challenge resulting from the growth in elementary and secondary enrollments projected by the National Center for Education Statistics (NCES). The center predicts that in one decade, "the nation will need an additional 6,000 schools, 190,000 teachers and \$15 billion annually to serve elementary and secondary students. K-12 enrollment will hit 51.7 million in the 1996-1997 school year and is expected to reach 54.6 million by 2006."²³ These numbers have significant implications for classroom space, school infrastructure and personnel needs that states will have to address respectively.

Policy Recommendations

Legislative solutions to inequitable spending patterns need to be sensitive both to taxpayer equity and to concerns for educational equity. The public's support for public education can be maintained only if policymakers and educators make a greater effort to take their case to the public and explain how education reform, accountability and adequate revenues are important to the reform strategy.

The stability of the funding system must remain a key consideration at all times. A balanced approach to school funding, where multiple sources of revenues contribute to financing schools, reduces the likelihood that the burden for funding will alienate one segment of the populace. Furthermore, burden sharing builds stability in finance.

- States should include a measure of school district fiscal capacity in their funding approach. In most states, the ability of a school district to fund education at the local level is directly related to its fiscal resources. In most states the only fiscal resource available to school districts is property tax. Therefore, the most commonly used measure of district wealth is a district's equalized assessed property valuation. Because differences in property tax values have tended to be the major contributor to spending disparities, a measure of school district fiscal capacity is a necessity. This will allow states to target aid to the most needy districts while ensuring adherence to broader state educational policy goals. "Basic support aid, also referred to as state aid, is the main component of a state's education finance system, in most cases providing the majority of aid. Basic support aid programs are designed to distribute aid in direct relationship with educational need and inversely to local ability to pay: that is, the greater the perceived educational need of the district, the more aid it will receive compared to districts with less need; and the greater the ability of a district to finance education, the less aid it will receive compared to districts with lower ability."²⁴
- States need to examine both the positive and negative circumstances associated with the use of earmarked lottery revenues for K-12 funding schemes. Lotteries are regressive and will decline over time, thus states must be careful not to look to them as stable and predictable revenue sources.
- States should be attuned to the principle of program neutrality. The principle proposes that the distribution of state funds not result in an unintentional shift of financial support from one program to another. For example, a pupil-weighting plan understating the actual cost of special education programs could result in the district diverting funds from the regular instructional program to make up the difference.²⁵
- States should consider that funding systems in total will likely incorporate the principle of fiscal variability. This means that a state school finance system may have several dimensions—general and categorical aid, equalized and nonequalized aid—thus allowing for a variety of financial aid mechanisms.²⁶
- The distribution of state resources should be done in a manner that promotes the most efficient use of those resources at the local level.

Legislative solutions to inequitable spending patterns need to be sensitive to both taxpayer and educational equity concerns.

A Broader Federal Role in Education Finance?

Reaching a solution to school finance equity may involve a redefinition of the federal role in elementary and secondary education. The average amount of federal aid to K-12 education is about 7 percent.²⁷ Historically, the federal government has provided categorical aid to help school districts that have large populations of poor students, contain government-owned property (for example military bases) that districts cannot include in their property tax bases and, most recently, to help states finance educational reform efforts under the Goals 2000 legislation.

During the 1996 Republican National Convention, delegates approved a platform that would offer the public an education "warranty," guiding federal policy while handing state and local policymakers most of the power to decide how to use a mix of vouchers, school prayer and immigrant policy. The last two years have seen an unprecedented public debate about what the role and direction of the U.S. Department of Education should be. The debate has been played out in the national media by members of congress, the administration and former secretaries of the department and was a legitimate campaign issue for the 1996 presidential election. (Appendix D contains a complete list of federal funding for elementary and secondary education programs and a discussion of what a broader federal role in education might look like).

Conclusion

Solutions to the problem of fiscal equity in state education programs will be reached gradually.

In addition to school finance, state legislators are dealing with broader implications of educational reform, including charter schools, voucher programs and the implementation of content standards. Nonetheless, public interest in reducing the reliance on property taxes and the pressure of constitutional challenges to the school funding system have ensured that there will be a need for state legislators and governors to continue defending how schools are funded while attempting to bring more equity to finance formulas.

As Jeffrey Katz noted, "legislators are key participants in the process because the states solely determine what constitutes educational equity."²⁸ Attempts to bring greater equity to all school systems will continue to be a challenging task for state policymakers, both financially and politically. States must craft plans to address equity while being sensitive to concerns in high-spending districts that advancing equity will mean that their state aid will be cut or that local revenues will be capped or recaptured.

On the other hand, because of the prohibitive costs it would take to boost all low-spending districts, it will not be possible for most states to pursue a "leveling up" strategy as a lone solution to closing disparities in per-pupil spending and educational resources. For example, when the state of Michigan rewrote its finance system in 1994 it required additional state aid to 41 of 556 school districts to bring them up to a minimum foundation allowance level of \$4,200 in school year 1994-1995.²⁹ When ranked with all school districts, these 41 districts were at the very bottom of spending in 1993-1994.

The problem of determining how to bring fiscal equity to states and districts will be solved incrementally. It is our hope that this publication will give policymakers some insights as to how to accomplish this formidable task.

Appendix A Nontax Revenues for Education

State lotteries are an important and lucrative source of education funding in a few states. In fiscal year 1993, when NCSL carried out a 50-state survey on the topic, the following states allocated the amounts shown to K-12 education (or related purposes) from lottery proceeds.

State	Amount (millions of dollars)	Purpose	Percent of Total K-12 Coming from Lottery
California	\$502	K-12 education	1.8
Florida	831	Dept. of Education	7.4
Idaho	3	K-12 education	0.4
Illinois	588	K-12 education	5.9
Indiana	85	K-12 education	1.7
Massachusetts	533	Local Aid Fund	10.5
Michigan	427	School Aid Fund	4.1
Montana	18	K-12 education	2.6
New Hampshire	37	K-12 education	3.6
New York	961	Local governments for K-12 education	4.2
Ohio	658	K 12 education	6.4
West Virginia	4	K 12 education	0.2
Wisconsin's	200	Property tax relief	3.7
Total	\$4,847		

Appendix B

Educational Goals for Kentucky

1. Its establishment, maintenance and funding are the sole responsibility of the Legislature.
2. It is free to all.
3. It is available to all Kentucky children.
4. It is substantially uniform throughout the state.
5. It provides equal educational opportunities to all Kentucky children.
6. It is monitored by the General Assembly to assure there is no waste, no duplication, no mismanagement, and no political influences.
7. Schools are operated under the premises that an adequate education is a constitutional right.
8. Sufficient funding provides each child an adequate education.
9. An "adequate education" is defined as one which develops the following seven capacities:
 - ✓ Communication skills necessary to function in a complex, changing civilization.
 - ✓ Knowledge to make economic, social, and political choices.
 - ✓ Understanding of governmental processes as they affect the community, state, and nation.
 - ✓ Sufficient self-knowledge and one's mental and physical wellness.
 - ✓ Sufficient grounding in the arts to enable each student to appreciate his or her cultural and historical heritage.
 - ✓ Sufficient preparation for students to choose and pursue their life's work intelligently.
 - ✓ Skills enabling students to compete successfully with students from other states.

Source: Opinion and Order of the Supreme Court of Kentucky, in *Rose vs. The Council for Better Education Inc.*

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Appendix C

Alabama Essential Principles and Features of the "Liberal System of Public Schools" Required by the Alabama Constitution

1. Sufficient oral and written communication skills to function in Alabama, and at the national and international levels, in the communication skills to function in Alabama, and at the national and international levels, in the coming years;
2. Sufficient mathematic and scientific skills to function in Alabama, and at the national and international levels, in the coming years;
3. Sufficient knowledge of economic, social, and political systems generally, and of the history, politics and social structure of Alabama and the United States, specifically, to enable the student to make informed choices;
4. Sufficient understanding of governmental processes and of basic civic institutions to enable the student to understand and contribute to the issues that affect his or her community, state, and nation;
5. Sufficient self-knowledge and knowledge of principles of health and mental hygiene to enable the student to monitor and contribute to his or her own physical and mental well-being.
6. Sufficient understanding of the arts to enable each student to appreciate his or her cultural heritage and the cultural heritages of others;
7. Sufficient training, or preparation for advanced training, in academic or vocational skills, and sufficient guidance, to enable each child to choose and pursue life work intelligently;
8. Sufficient levels of academic or vocational skills to enable public school students to compete favorably with their counterparts in Alabama, in surrounding states, across the nation, and throughout the world, in academics or in the job market; and
9. Sufficient support and guidance so that every student feels a sense of self-worth and ability to achieve, and so that every student is encouraged to live up to his or her full human potential.

Source: Opinion and Order of Alabama Circuit Court Judge Eugene W. Reese, in *Alabama Coalition for Equity, Inc., vs. Guy Hunt*, Circuit Court for Montgomery County, Alabama.

Appendix D

Elementary Secondary Education Program and A Broader Federal Role in Education Finance

Bilingual Education

Title 1 - Compensatory Education
 Administration
 Basic State Grants
 Capital Expenses
 Even Start
 Handicapped Payments
 Migrant Programs
 Neglected and Delinquent Children
 School Improvement

Dropout Prevention

Special Education

 Basic State Grants
 Preschool Grants
 Infants and Children

Impact Aid

 Basic State Grants
 Handicapped Payments
 Construction

Goals 2000: Educate America Grant

School-to-Work

Title VI: School Improvement Program

Safe and Drug-Free Schools and Communities

Eisenhower Professional Development

Magnet Schools

Indian Education

Immigrant Education

Education for the Homeless Youth

Postsecondary Education

College Work Study

Supplemental Educational Opportunity Grants

Perkins Loans

Pell Grants

State Student Incentive Grants

A Broader Federal Role in Education Finance

Allan Odden, a national school finance expert and University of Wisconsin professor of education administration has done some extensive work in fashioning several strategies that would create a new federal role in K-12 education. He argues that the federal government should try to address the most pronounced interstate disparities, which can be found in most of the poorest states. These states now garner the highest percentage of federal categorical aid, however, their needs for additional monetary assistance remain high. The Goals 2000 program could serve as a vehicle for distributing additional money that is not earmarked for existing categorical programs.

Other ideas include:

- Although costly, a new federal role in general revenue sharing could be targeted to reduce differences in state fiscal capacity. Odden acknowledges that critics will argue that until fiscal capacity is more directly and strongly linked with differences in student achievement, a large and expensive new federal role is unwarranted. The general idea would be for the federal government to ensure a per capita tax yield across the states for similar tax efforts, similar to an intrastate guaranteed tax base program of school financing.
- Another alternative would be for the federal government to bring base education spending up to some minimum level, such as the national average expenditure per pupil or the median expenditure per-pupil level. Odden cautions that if fully funded, it would require a large boost in federal education revenues but would leave intact current differences in state education tax effort. To address this problem he suggests that federal revenue for such a program could be contingent upon a state's exerting a minimum general tax effort, using measures such as an amount of own source tax revenues per capita or a tax rate index at or above 100 on the ACIR (Advisory Commission on Intergovernmental Relations) tax effort index.
- A third, more direct alternative would be for the federal government to implement a nationwide district or school-based foundation per pupil expenditure program. This program would function just like a state foundation program. First, the federal government would set a base spending level, or a foundation per-pupil expenditure level, for all districts or schools. The amount could be adjusted using a state-by-state cost-of-education index. The federal government would make up the difference between this per pupil amount and an amount that would have to be raised by the state. The latter amount could be the yield from a statewide property tax, or it could be the yield from a statewide property tax and an amount of state general fund revenues. Such a program would address both inter-and intrastate spending differences.

Appendix E

Glossary

Assessed Valuation: The value of a taxable property as determined by a government agency or tax assessor. Taxes are paid on the basis of a property's assessed valuation. The assessed valuation of property in most states and localities is usually less than the market value of the property.

Equalization: The process of compensating for differences in order to make equal. Several related concepts are useful. Capacity Equalization is the process of compensating for differences in school districts' ability to support education in order to achieve student equity and taxpayer equity. Service and programmatic equalization is the process of compensating for differences in the level of services or programs in a school or school district in order to achieve student equity.

Foundation Program: A state equalization aid program that typically guarantees a certain foundation level of expenditure for each student, together with a minimum tax rate that each school district must levy for education purposes. The difference between what a local school district raises at the minimum tax rate and the foundation expenditure is made up in state aid.

Fiscal Capacity: The total economic resources available to a government for tax purposes. In school finance, fiscal capacity is generally defined as property valuation per pupil, but several states include income or other measures of wealth with property valuation as a measure of fiscal capacity.

Recapture: A feature in state aid to education formulas where local districts which raise an amount per pupil in excess of the state guaranteed expenditure per pupil would have to pay back the excess to the state for redistribution to poorer school (i.e., those with less valuation per pupil).

Required Local Tax Rate: A term indicating the mandated property tax rate equipped for participation in the state aid system. The required local tax is usually associated with a foundation program and is often expressed in terms of mills. A millage rate is the amount of property tax dollars to be paid for each \$1,000 of assessed valuation.

Required Local Effort (RLE): A local tax that must be levied. Local funds raised by the RLE are subtracted from the total foundation funds to determine the amount of state aid the district receives.

Source: John Augenblick, Mary Fulton, and Chris Pipho. *School Finance: A Primer*, April 1991.

Appendix F

Organizational Strategies to Address Equity

The National Education Association, (NEA) and the American Federation of Teachers (AFT) have both recently offered strategies for influencing ongoing educational reform and student achievement. The unions hope these initiatives will positively influence student achievement while also presenting a strong case for advancing educational equity. The NEA strategy involves the development of a "quality index" that can be used by individual schools, districts and the states to "help identify needs and priorities for how schools can gauge whether the programs in place are sufficient to help students meet world class standards." Under a five-year project the union has also released "Keys to Excellence in Your Schools" (KEYS) which provides 35 indicators for identifying strengths, weaknesses and resource needs.³⁰

The American Federation of Teachers has released the "Lesson for Life Campaign." The national campaign is based on the public polling work of the Public Agenda Foundation and seeks to establish equity and discipline in the learning environment in order to ensure high academic standards. The initiative seeks to help all students by ensuring that the school environment can focus on learning and achievement as opposed to disruptions within classrooms. It includes the AFT Bill of Rights and Responsibilities for Learning.

A special partnership between the U.S. Chamber of Commerce's Center for Workforce Preparation, the accounting firm Coopers & Lybrand LLP and Fordham University professor Bruce Cooper has produced a resource allocation model for use by local schools and districts. The model seeks to help districts track education spending from the central office into the classroom. Such data could be used by policymakers to examine equity issues within a state and within school districts. The software produces management reports that provide community leaders, administrators and policymakers with information that can contribute to the understanding of how school districts use monetary resources. The model may have implications for addressing equity and other finance-related questions within school districts and states.

Other entities that have done similar expenditure flow analysis include the Washington, D.C. based firm Pelavin & Associates as well as Palo Alto, California, based education researchers Jay Chambers and Tom Parrish. At least three states—Ohio, Oregon and Florida—have used uniform accounting systems as a means of tracking state expenditures.

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About the Education Partners Project

In early 1994, the National Conference of State Legislatures and the Foundation for State Legislatures convened a group of state legislators, legislative staff, business organizations and nonprofit organizations to begin a conversation about the principles and components of a sound state school finance system.

The major purpose of the Education Partners Project is to encourage dialogue and build consensus among these groups because educational goals can be realized only when coupled with a sound funding system.

In addition to a report, three working papers on related education finance topics emerged from the partnership:

- The Relationship Between Educational Expenditure and Student Achievement
- The Search for Equity in School Funding
- Taxation and Revenues for Education

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